

Business Personal Property
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Revenue Laws

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Fair Market Value

- N.C.G.S. 105-283: Requires “true value in money”
- Three approaches to value:
 - Cost Approach
 - Sales Approach
 - Income Approach

- The counties use the cost approach to appraise business personal property, and in using the cost approach, the appraiser must determine four critical elements:
 1. The original (historical) installed cost
 2. The current replacement cost new (RCN)
 3. The useful economic life of the property
 4. The loss in value (Depreciation)
- Trend the historical cost to reach today's cost.
- Example: original cost of \$10,000 in 2008, trend factor determined to be 1.06 (2% increase each year). 2011 RCN would be $\$10,000 \times 1.06 = 10,600$.
- If the property has a 10-year life and is four years old the amount of depreciation is 40% or \$4,240.00 and the value would be $\$10,600 - \$4,240 = \$6,360$.

Historical vs. Allocated Costs

- Historical cost is the cost of the property when it was first placed into service by its original owner
- Allocated cost or Acquisition cost is the price paid for an asset when acquired by the present owner

NC Department of Revenue's Recommendation and General Rule

- The cost figures reported should be historical cost, that is the original cost of an item when first purchased, even if it was first purchased by someone other than the current owner.

Any time the new book cost is substantially more or less than the previous year's appraisal, the appraiser should **ask why**. In these situations the following questions should be asked:

1. Does the price paid represent fair market value?
2. Were all of the assets purchased from the prior owner?
3. Have any of the assets been sold by the new owner since the purchase?
4. Were the reported costs of the prior owner ever audited?
5. What is the purchase price allocation based on?
6. Was an appraisal made of the property prior to the sale?
7. Was an appraisal made of the property after the sale?
8. How many business locations were involved in the purchase?

Amp Inc v. Guilford County



NC Supreme Court, 287 NC 547 (1975)

- “In this State there is no statutory authority that permits the county tax supervisor, as a per se rule, to equate “book value” with true value in money as a uniform measure of assessment for purposes of ad valorem tax valuation.”

Edwards Valves, Inc. v. Wake Co.,
117 NC App. 484, 493, 451 S.E. 2d 641, 647
(1995)

- The Court of Appeals held that the tax was illegal when the assessment methodology was based upon:
“an improper distinction between taxpayers who owned the same class of property, self created intangibles, that have been sold and similar intangibles that have not been sold.”

Historical Cost

Sum of Cost	Column Labels 			
Row Labels 	Computers	Equipment	Furniture/Fixtures	Grand Total
+ 1994			\$ 23,318	\$ 23,318
+ 1995		\$ 1,657		\$ 1,657
+ 2002	\$ 283,314	\$ 14,770	\$ 4,268	\$ 302,351
+ 2003	\$ 298,925	\$ 17,101	\$ 21,025	\$ 337,050
+ 2004	\$ 275,195	\$ 8,905	\$ 467	\$ 284,566
+ 2005	\$ 1,603,963	\$ 49,625	\$ 93,216	\$ 1,746,803
+ 2006	\$ 49,752	\$ 16,349	\$ 3,775	\$ 69,875
+ 2007	\$ 175,018	\$ 7,184	\$ 19,514	\$ 201,715
+ 2008	\$ 286,146	\$ 30,695	\$ 27,690	\$ 344,531
+ 2009	\$ 1,848		\$ 778	\$ 2,626
Grand Total	\$ 2,974,160	\$ 146,285	\$ 194,049	\$ 3,314,493

These numbers reflect original historical cost (\$3,314,493) and year acquired of the assets included in the purchase. (This is the basic information required on all Business Personal Property Listings)

Historical Cost - Continued

The column headers represent the asset class which is required to determine which of the trending tables to apply.

Sum of Cost	Column Labels
Row Labels	Computers Equipment Furniture/Fixtures

After applying the trending tables the total assessed value of the assets listed above as of January 1, 2010 would be:

	Assessed Value
Computers	\$ 489,746
Equipment	\$ 78,376
Furniture/Fixtures	\$ 103,603
Grand Total	\$ 671,725

Estimated Value - Wake

Sum of Fair Value	Column Labels				
Row Labels	Computers	Equipment	Furniture/Fixtures	Grand Total	
2009	\$ 895,800	\$ 55,900	\$ 86,900	\$ 1,038,600	
Grand Total	\$ 895,800	\$ 55,900	\$ 86,900	\$ 1,038,600	

These numbers represent the allocation of the estimated value (\$1,038,600) to each category of assets as of the purchase date of October 1, 2009.

This is how Wake County would record the estimated value if historical cost data was not available. We would then apply the trend tables to these numbers.

Estimated Value – Wake

Continued

Using this approach the assessed value as of January 1, 2010 would be:

	Assessed Value
Computers	\$ 627,060
Equipment	\$ 50,310
Furniture/Fixtures	\$ 78,210
Grand Total	\$ 755,580

Daycare Example

- Total Historical Costs: \$102,917
- 2007 Value: \$ 34,172
- 2008 New purchases Price: \$449,140
 - Allocation as follows:
 - Data Handling Equipment: \$156,140
 - Furniture: \$150,000
 - Good Will \$143,000
 - 2008 Value: \$275,526

Appraisal Question

- Starting Point – DOR recommendation
- Recognized by the courts
- Other States have the same practice.
- Does it work?
- When to go away from it?
- Current Practice works most of the time
- Property owners and County Assessors work together to reach “fair market value”